

CHAPTER 2. OBTAINING UNQUALIFIED OPINIONS ON FINANCIAL STATEMENTS

The Department is committed to preparing and publishing complete, concise, understandable, and meaningful information about the financial and operating performance of the Department and the individual bureaus, offices, and programs which comprise the Department. The Chief Financial Officers' Act (CFO Act), as amended by the Government Management Reform Act (GMRA), requires agencies to prepare and publish annual agency-wide financial statements beginning with FY 1996.

The Department's financial reporting goals are to achieve and maintain unqualified audit opinions for all bureau financial statements and the consolidated Department financial statements, to strengthen financial controls, and to ensure that financial data produced for management decision-making is reliable, verifiable and consistent with the annual audited financial statements. In fiscal years 1996 and 1997, the Department volunteered to prepare an Accountability Report on a pilot basis. This Accountability Report includes audited consolidated financial information, as well as information on operating performance and management integrity. The Department will continue to prepare an annual Accountability Report, revising and expanding the content of this report to adapt to changing requirements and to meet the needs of interested parties. In addition, the Department's financial reporting strategy includes the continuation of bureau preparation of CFO Act financial reports. The Department believes that there are significant and long-term benefits of bureau-wide statements, including verification of the financial and cost accounting data used by management, presentation of a clear and concise summary of bureau operations, accomplishments and concerns, and identification and correction of operating weaknesses such as inventory management and collection of accounts receivable by working capital funds.

Improving Financial Management Reporting

The Department's goals are to be able to prepare bureau and consolidated financial statements on a timely basis that receive unqualified audit opinions, and make financial management information accessible throughout the year. Currently, the Department has:

- Prepared and audited FY 1997 financial statements for the Department's ten bureaus and operating components, and received nine unqualified audit opinions, indicating that the financial information presented was fairly stated in all material respects. Only the Bureau of Indian Affairs received a qualified opinion. All bureaus and operating components continue to demonstrate significant progress in improving the quality of financial data and financial statement presentation. *Exhibit 2-1* presents a summary of the Department's progress in the preparation and audit of financial statements. *Exhibit 2-2* summarizes all of the FY 1997 audit opinions, including compliance with internal controls, compliance with laws and regulations, and compliance with the Federal Financial Management Improvement Act, in addition to financial statement audit results.

Exhibit 2-1

**Department of the Interior
Financial Statement Audit Results
1991 through 1995**

	Fiscal Year 1991	Fiscal Year 1992	Fiscal Year 1993	Fiscal Year 1994	Fiscal Year 1995	Fiscal Year 1996	Fiscal Year 1997
Department Consolidated				(F/S prepared but not audited)	Qualified	Qualified	UNQUALIFIED
Fish and Wildlife Service	(F/S prepared but not audited)	Qualified	Qualified	Qualified	UNQUALIFIED	UNQUALIFIED	UNQUALIFIED
Geological Survey	(F/S prepared but not audited)	Disclaimer	Disclaimer	Disclaimer	Qualified	UNQUALIFIED	UNQUALIFIED
Bureau of Indian Affairs	(F/S prepared but not audited)	Disclaimer	Disclaimer	Disclaimer	Qualified	Qualified	Qualified
Bureau of Land Mgt	Disclaimer	Qualified	Qualified	Qualified	UNQUALIFIED	UNQUALIFIED	UNQUALIFIED
Minerals Management Service	UNQUALIFIED	UNQUALIFIED	UNQUALIFIED	UNQUALIFIED	UNQUALIFIED	UNQUALIFIED	UNQUALIFIED
Bureau of Mines	(F/S prepared but not audited)	UNQUALIFIED	UNQUALIFIED	UNQUALIFIED	UNQUALIFIED	(Bureau Eliminated)	
Nat'l Biological Service (established Nov 1993)				UNQUALIFIED	UNQUALIFIED	(Bureau Merged with USGS)	
National Park Service	(F/S prepared but not audited)	Disclaimer	Disclaimer	Disclaimer	UNQUALIFIED	UNQUALIFIED	UNQUALIFIED
Bureau of Reclamation	Qualified	Qualified	Qualified	UNQUALIFIED	UNQUALIFIED	UNQUALIFIED	UNQUALIFIED
Office of Surface Mining Reclamation & Enforcement	UNQUALIFIED	UNQUALIFIED	UNQUALIFIED	UNQUALIFIED	UNQUALIFIED	UNQUALIFIED	UNQUALIFIED
Office of the Secretary	(F/S prepared but not audited)	Qualified	Qualified	Qualified	UNQUALIFIED	UNQUALIFIED	UNQUALIFIED
Office of Territories and International Affairs	(F/S prepared but not audited)	(F/S prepared but not audited)	UNQUALIFIED	UNQUALIFIED	UNQUALIFIED	UNQUALIFIED	UNQUALIFIED

Exhibit 2-2

Summary of Results of Fiscal Year 1997 Financial Statement Audits

	(1) Opinion on Financial Statements	(2) Opinion on Internal Controls	(3) Opinion on Compliance with Laws & Regs	(4) Opinion on Compliance w/ FFMIA	Comments
Consolidated	clean	clean	qualified	no	2) Reportable condition (not a qualification) on BIA and MMS Roy Mgt Prog 3) BIA non-compliance w/ debt collection, prompt pay & credit reform; BIA & MMS systems not in compliance w/ OMB A-127 & A-130 4) BIA & MMS systems
Fish and Wildlife Service	clean	clean	clean	yes	
Geological Survey	clean	clean (w/ rptable cond)	clean	yes	2) Reportable Condition due to 3 prior audit reports with unresolved issues
Bureau of Indian Affairs	qualified	qualified	qualified	no	1) 8 accounts qualified, related to Accounts Receivable, Revenue, Equipment and Construction in Progress 2) Material Weakness (qualification) on Internal Controls over Accounts Receivable, property transactions, and subsidiary ledgers. Reportable condition on financial systems 3) Non-compliance with laws on debt collection, prompt payment & credit reform; Systems not in compliance w/ OMB A-127 & A-130 4) Systems not in compliance w/ OMB A-127 & A-130
Bureau of Land Mgt	clean	clean	clean	yes	
Minerals Mgt Service	clean	clean	qualified	no	2) Reportable Condition (not a material weakness) on financial systems 3) & 4) Systems not in compliance w/ OMB A-127 & A-130
National Park Service	clean	qualified	clean	yes	2) Unimplemented recommendation on prior audit reports - fiscal year 96 financial statement audit audit (97-I-936) and concession audit (98-I-389)
Bureau of Reclamation	clean	clean (w/ rptable cond)	clean	yes	2) Reportable Condition due to 5 prior audit reports with unresolved issues
Office of Surface Mining	clean	clean	clean	yes	
Office of the Secretary	clean	clean	clean	yes	
Office of Internatl Affairs	clean	clean	clean	yes	

- Prepared and audited FY 1997 Consolidated Financial Statements for the Department, and received an unqualified audit opinion for the first time.
- Prepared the Department's second Accountability Report under an OMB-sponsored pilot program. OMB has been encouraging agencies to join a pilot effort authorized by the GMRA to streamline reporting through consolidating various reporting requirements into an annual accountability report. The Department first volunteered and was approved to participate in the pilot Accountability Report program in 1996. The report integrates the multiple financial management and performance measurement requirements of the CFO Act, GPRA, GMRA, and Federal Managers' Financial Integrity Act (FMFIA) into a comprehensive process. The Department's Accountability Report encompassed FY 1997 consolidated financial information, as well as a variety of other information which demonstrates the Department's stewardship over the assets, missions and responsibilities entrusted to it.

Planned Actions for 1999

- Complete the preparation and audits of the FY 1998 consolidated financial statements by the target date of February 1, 1999 or no later than the statutory deadline of March 1.
- Continue to streamline the financial data collection process, to permit more timely preparation of the annual audited financial statements as well as the preparation of periodic unaudited financial reports for management. Streamlining that will include providing a single FACTS I submission to the Department of the Treasury for FY 1998 information.
- Begin preparation of quarterly financial statements for bureaus and operating components.
- Expand the amount of segment and program information presented in the Accountability Report, including both financial and GPRA performance information.
- Investigate more cost-effective approaches to the audit of Department, bureau and operating component financial information, to ensure the continuing preparation and publication of meaningful financial information. The Department will investigate approaches for improving support to the audit process to ensure that the benefits achieved to date will continue in the future.

Planned Actions for 2000 and Beyond

- Continue to improve the quality and timeliness of financial reporting.
- Begin preparation of monthly financial statements for bureaus and operating components.
- Continue to prepare and audit annual financial statements for all reporting entities, including bureaus and Department consolidated financial statements.

- Achieve unqualified audit opinions on all bureau and operating component financial statements, as well as the Department consolidated financial statements.

Correction of Federal Financial Management Improvement Act Deficiencies

The Federal Financial Management Improvement Act of 1996 (FFMIA) builds upon and complements the CFO Act, the Government Performance and Results Act and the Government Management Reform Act. This act requires that federal agencies conform to the Government-wide Standard General Ledger, comply with all applicable Federal accounting standards, and establish financial management systems that support full disclosure of Federal financial data, including the full costs of Federal programs and activities. The auditor is to include a statement regarding compliance with these provisions in the audit report on agency financial statements. If an agency is not in compliance with these requirements, FFMIA requires that the agency head establish a remediation plan necessary to bring the agency's financial management systems into substantial compliance.

For fiscal year 1997, the Office of the Inspector General (OIG) determined that all but two bureaus were in compliance with the FFMIA. The nature of the exceptions and the actions to be taken for those bureaus not in compliance are as discussed below.

Minerals Management Service (MMS) - The OIG in its audit found the Royalty Management Program's automated information system was not in compliance with FFMIA due to departures from certain requirements of Office of Management and Budget Circulars A-127, "Financial Management Systems," and A-130, "Management of Federal Information Resources." While MMS concurred that certain aspects of system security could be improved and has agreed to take action on OIG recommendations, MMS disagrees with the auditors over the significance and potential impact of these findings. Corrective actions underway by MMS are expected to be completed by September 30, 1998, at which point any FFMIA weakness will have been corrected.

Bureau of Indian Affairs (BIA) - The OIG in its audit found BIA's automated information system was not in compliance with FFMIA due to departures from certain requirements of Office of Management and Budget Circulars A-127, "Financial Management Systems," and A-130, "Management of Federal Information Resources." BIA agrees that the identified weaknesses do constitute an exception under FFMIA. Corrective actions underway by BIA to address these recommendations are scheduled to be completed by September 30, 1998.